



The Florida Senate

Interim Project Summary 2000-21

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Committee on Commerce and Economic Opportunities

Senator George Kirkpatrick, Chairman

ENHANCEMENT OF FLORIDA'S INTERNATIONAL BUSINESS ACTIVITIES

SUMMARY

This project seeks to assess the extent to which small businesses are participating in export activities, to identify barriers to exportation, and to explore whether the state and its existing trade programs are helping small businesses identify markets with product demand, identify strategic alliances in those markets, and obtain the financing to effectuate trade opportunities.

The research conducted under the purview of this report suggests that the state currently offers, and small businesses use, programs that help these businesses to identify markets with product demand, identify strategic alliances in those markets, and obtain the financing to effectuate trade opportunities. Furthermore, trade assistance programs available to small businesses in the state appear compatible with the needs identified by small businesses.

Research also supports the conclusion that a substantial number of additional small businesses could become involved in international activities. For small businesses completing an international trade survey, however, the largest obstacle to exporting was limited company resources -- an obstacle that may be difficult for the state to influence directly through its trade assistance programs.

This report does not attempt to recommend a wholesale change to trade assistance services delivered in Florida, but does provide several observations relating to enhancement of these services for small businesses in Florida.

BACKGROUND

During the May 1999 economic summit held in Coral Springs, the enhancement of Florida's international business activities was identified as a vital component for Florida's economic future. In 1998, the state's total

international merchandise trade volume, which denotes the value of all goods exported or imported through the Miami and Tampa Customs Districts, exceeded \$69 billion, equivalent to almost a fifth of Florida's Gross State Product of about \$380 billion. Of the total trade volume, exports accounted for almost \$38 billion, while imports amounted to almost \$32 billion¹. An analysis conducted by the Washington Economics Group, Inc., forecasts that the total trade volume will reach \$100 billion (\$53 billion in exports and \$47 billion in imports) by 2003 and \$146 billion (\$78 billion in exports and \$68 billion in imports) by 2008².

Florida is frequently referred to as a "small business state." Annually, the Office of Economic Research of the U.S. Small Business Administration's Office of Advocacy publishes its state small business profiles for the 50 states, District of Columbia, and Puerto Rico. These profiles include baseline statistics on each state's small business economy -- number of firms, small business income, industrial composition, job growth, and data on minority and women-owned businesses. The *Small Business State Profile, 1998* for Florida offers the following statistics:

- In 1997, Florida had 355,429 businesses with employees. Small businesses (fewer than 500 employees) comprised 98.9 percent of these businesses.
- From 1992 to 1996, small businesses (fewer than 500 employees) created 90.5 percent of the net new jobs. Almost 55 percent of these net new jobs (created by both small and large businesses) were created in the service industry.

¹ *Overview of Florida's International Trade in 1998*, Enterprise Florida, Inc.

² *Florida Trade Outlook: 1999-2008*, Washington Economics Group, Inc., March 11, 1999.

- Small businesses in the state are represented in many industries. In 1995, the “eating and drinking places” industry was the largest small business employer in Florida, followed by health services.

Chapter 99-251, L.O.F, requires Enterprise Florida, Inc., (EFI) to prepare, before January 1, 2000, a plan for promoting direct investment in Florida by foreign businesses, as well as a master plan for integrating public-sector and private-sector international trade and reverse investment resources, in order that businesses may obtain comprehensive assistance and information in the most productive and efficient manner. With the EFI plans already addressing some key issues related to international activities, this project seeks to assess the extent to which small businesses are participating in export activities, to identify barriers to exportation, and to explore whether the state and its existing trade programs are helping small businesses identify markets with product demand, identify strategic alliances in those markets, and obtain the financing to effectuate trade opportunities.

Florida Trade Assistance Programs³

EFI is the principal economic development organization for the state and pursuant to s. 288.9015, F.S., is responsible for providing leadership for business development in Florida by aggressively: establishing a unified approach to Florida's efforts of international trade and reverse investment; marketing the state as a probusiness location for potential new investment; and assisting in the retention and expansion of existing businesses and the creation of new businesses. This statutory section also requires EFI to incorporate the needs of small businesses into its international trade and reverse investment responsibilities. EFI estimates that 95 percent of the businesses served by its international trade programs are small businesses with fewer than 100 employees, and that 80 to 85 percent of the businesses served by these programs have total annual sales of less than \$20 million. Furthermore, of the \$381.1 million documented export sales attributable to EFI programs and activities in FY 1998-99, EFI estimates that approximately 60 percent of this value is attributable to businesses with fewer than 100 employees.

EFI's portfolio of programs to promote international trade includes export counseling, trade leads, participation in trade exhibitions and missions, the “Made in Florida” marketing campaign, in-state matching of Florida manufacturers with trading companies, and export assistance through foreign offices. EFI provides basic information relating to export market identification, while, due to limited resources, in-depth research to identify markets with product demand is usually performed by private entities on a fee basis.

EFI is required to comply fully with the performance measures, standards, and sanctions in its contract with the Office of Tourism, Trade, and Economic Development (OTTED). The current performance measures relating to international trade activities contained in the contract between EFI and OTTED include: documented export sales attributable to programs and activities, customer satisfaction, trade leads, trade events, and number of companies assisted by EFI in the area of international trade. Section 288.90151, F.S., requires EFI, as part of the annual report required under s. 288.906, F.S., to include the results of a customer satisfaction survey of businesses served, as well as the lead economic development staff person of each local economic development organization that employs a full-time or part-time staff person.

Other trade programs established in the Florida Statutes include the International Trade Data Resource and Research Center (see s. 288.8155, F.S.), also known as the Florida Trade Data Center (FTDC), and the Florida Export Finance Corporation (FEFC) (see ss. 288.770-288.778, F.S.). The FTDC is authorized to develop a statewide trade information system, develop an internet-based electronic commerce system designed to facilitate international trade in the Americas, and provide research on trade opportunities in specific countries. The purpose of the FEFC is to expand employment and income opportunities for residents of the state through increased exports of goods and services. This purpose is accomplished by providing small- and medium-sized businesses, which employ fewer than 250 people, have a net worth of less than \$6 million, and are domiciled in this state, with information and technical assistance on export opportunities, exporting techniques, and financial assistance through loan guarantees and direct loans in support of export transactions.

³ For detailed information on Florida trade assistance programs, see appendixes of full report.

METHODOLOGY

Literature and data research was performed to determine the extent to which small businesses in Florida are in fact participating in international trade activities (e.g., value of export transactions conducted by small businesses in the state and percentage of small businesses that export). Also, in order to provide estimates on the potential of Florida businesses to trade, staff reviewed statistics provided by Enterprise Florida, Inc. (EFI).

Surveys of small businesses were conducted to determine barriers to trade for small businesses, and for those businesses that are currently engaged in trade activities, to additionally determine whether the state's existing trade assistance programs are helping small businesses identify markets with product demand, identify strategic alliances in those markets, and obtain the financing to effectuate trade opportunities. Surveys were mailed to a broad spectrum of businesses in Florida with 100 or fewer employees⁴. In order to ensure some feedback from businesses that have actually used state-supported trade assistance programs, surveys were sent to customers of these services from a mailing list supplied by EFI, and, on its own initiative, the Florida Export Finance Corporation (FEFC) provided the survey to some of the organization's clients and asked that they complete the survey.

In addition, ways in which other states promote trade -- particularly small business participation in trade activities -- was examined through internet research, literature research, and state surveys.

FINDINGS

Small Business Participation in International Trade Activities

Although a fragment of small businesses engage in export activities, the federal Small Business Administration (SBA) has found enormous potential for other small businesses to expand into exporting. Its

recent report, *Exporting by Small Firms*⁵, based on 1992 data from the U.S. Department of Commerce, shows that of the 12,757 Florida exporters of goods in 1992, 11,743 or 92.1 percent were small businesses (fewer than 500 employees). Of these small businesses, 20 percent had no employees, 53 percent had 1-19 employees, and 27 percent had 20-499 employees.

Detailed highlights of the SBA report include the following:

- By state, in 1992, California, Florida, and New York had the largest share of exporters of goods who were small businesses.
- Only 4.1 percent of all Florida businesses exported goods in 1992. These exporters represented 3.8 percent of all Florida small businesses and 30.5 percent of all Florida large businesses (businesses with more than 500 employees). Of all states, Florida ranked seventh in the percentage of all businesses exporting, and fourth of all small businesses exporting, indicating the importance of small business exporters in the state.
- Nationally, by major industry group, 9.3 percent of all manufacturing businesses exported goods or services in 1992. Comparable figures for other industries include 8.0 percent of all wholesale trade businesses, 1.5 percent of all retail and service businesses, 1.0 percent of all finance, insurance and real estate businesses, and 0.3 percent of all construction businesses.
- In 1992, manufacturers accounted for 69.2 percent of the value of goods exported. Over 13 percent of the manufacturing amount emanated from small businesses.

In April of 1999, the U.S. Department of Commerce, Bureau of the Census, released a report titled *A Profile of U.S. Exporting Companies, 1996-1997*. Although this report does not provide detailed exporter firm size data by state, it does provide the total number of exporters of goods by state. In 1997, 21,965 exporters of goods were located in Florida. This figure represents a 72 percent increase over 1992 levels, but

⁴ Many different definitions of "small business" exist. For purposes of this survey, 100 or fewer employees was used to define a small business, as that employment threshold coincides with s. 288.703, F.S., the "Florida Small and Minority Business Assistance Act of 1985."

⁵ *Exporting by Small Firms*, April 1998, Office of Economic Research, U.S. Small Business Administration Office of Advocacy.

is less than the national increase of almost 86 percent. These reports do show, however, that small business representation in the exporting arena has not changed significantly. Nationally in 1992, small businesses represented almost 96 percent of all exporters of goods and contributed almost 30 percent of the value of exported goods; while in 1997, small businesses represented almost 97 percent of all exporters of goods and contributed almost 31 percent of the value of exported goods.

Today, Enterprise Florida, Inc., (EFI) estimates there are at least 30,000-40,000 small-, medium-, and large-sized businesses in Florida with unrealized export potential.

Small Business International Trade Survey

Of almost 800 surveys mailed to small businesses as part of this interim project, 108 surveys were completed at this writing, which represents a response rate of almost 14 percent. Of the survey respondents, 31 represent businesses with 0-9 employees, 32 represent businesses with 10-50 employees, 25 represent businesses with 51-75 employees, and 16 represent businesses with 76-100 employees.

The goal of this survey was threefold. First, the survey attempted to identify barriers to small business participation in international activities. Second, the survey was used to explore whether the state and its existing trade assistance programs are helping small businesses identify markets with product demand, identify strategic alliances in those markets, and obtain the financing to effectuate trade opportunities. Third, the survey assessed the respondents' views on the effectiveness of various international trade assistance programs.

The survey was designed to provide a means to solicit input and feedback from small businesses in Florida, and does not necessarily represent the universe of small business opinions. Because of the diversity of businesses in the state, it may not be possible to generalize the survey responses to all small businesses.

Barriers to International Trade Activities

The survey asked respondents to rank the top five obstacles to exporting. The following table illustrates the obstacles most frequently cited.

Obstacle	# of Respondents Citing as an Obstacle	# of Number-One Ranks Given to Obstacle
Limited company resources	54	17
Identifying/assessing agents and distributors	30	4
Lack of market research about overseas market potential	29	9
Lack of knowledge of how to export	28	9
Unfamiliar with foreign business practices	28	5
Lack of export financing	27	8
Methods of payment	27	4
Foreign "red tape"	26	3
Lack of experience selling overseas	21	3
Unaware of U.S. government export programs	20	3

Trade Assistance to Florida Small Businesses

Almost 50 percent of the survey respondents were aware of trade assistance programs provided by EFI, while over 50 percent of the survey respondents who were aware of EFI actually received trade assistance from EFI. Fewer respondents were aware of other assistance programs, however, with 19 percent of the survey respondents aware of programs provided by the Florida Trade Data Center (FTDC), and 31 percent of the survey respondents aware of programs provided by the Florida Export Finance Corporation (FEFC). The differences between the percent of survey respondents who are aware of EFI programs yet not aware of FTDC and FEFC programs may suggest an opportunity for cross-program promotion.

The most common services received by survey respondents from EFI, FTDC, and FEFC included

trade leads, access to trade missions and exhibitions, financing, and trade information.

Sixty-six percent of all survey respondents currently export goods or services internationally, while almost half of these companies indicate that export activities account for 0-25 percent of their business. Survey respondents who are currently exporting were asked to answer a series of questions relating to how the company generates sales leads, how the company identifies international markets, whether the company has formed strategic alliances, principal sources for promoting products overseas, and reasons the business entered the foreign marketplace. Data reveals that these companies employ a variety of techniques to identify trade opportunities and to take advantage of those opportunities. For example, survey respondents most frequently indicated they:

- generate sales leads through buyer inquiries, agents/distributors, and trade shows;
- identify international markets through established contacts, market research, market access, and recommendations from private-sector trade experts; and
- promote products overseas through trade shows, distributors, and advertisements in industry publications.

Similarly, there was an assortment of responses when all survey respondents were asked what activities and functions the state should perform. Interestingly, the state is currently providing most of the types of services identified by respondents as being important, including:

- Market research
- Finance assistance
- Timely trade leads
- Trade show organization
- Strategic alliance assistance
- Trade missions
- Export counseling

The responses from exporters and non-exporters alike could suggest that the state and its trade organizations may need to be flexible in the menu of services offered to businesses, and that one size does not fit all.

Effectiveness of Florida Trade Assistance Programs

The survey asked respondents to rank the effectiveness of various state trade assistance programs that they have used, employing a scale of one to five, with one representing “extremely effective” and five representing “not at all effective.” Based on calculations that produced an average effectiveness rating⁶, all major programs were viewed as being effective, with EFI receiving an average effectiveness rating of 1.9, the FTDC receiving an average effectiveness rating of 2.8, and the FEFC receiving an average effectiveness rating of 1.3. EFI’s program components, however, received lower average effectiveness ratings than EFI as a whole. Trade missions and exhibitions received an average effectiveness rating of 2.6; “Team Florida” missions received an average effectiveness rating of 2.8; export counseling received an average effectiveness rating of 2.9; and foreign offices/representatives received an average effectiveness rating of 2.6.

It should be noted that the average effectiveness ratings represent opinions of only a fraction of the businesses actually receiving services from these entities. For example, the average effectiveness rating for EFI was derived from only 21 survey responses, while last year EFI’s trade assistance programs served more than 4,000 businesses.

Trade Assistance Programs in Other States

In addition to examining Florida’s current trade programs, this project researched literature to provide information on other state programs. A study carried out under an award by the SBA, titled *State Export Promotion and Small Business*, National Small Business United, February 1992, conducted case studies of export promotion programs in nine states to assess common characteristics, assistance strategies, and relative effectiveness for small business of the programs.

Based on interviews with state officials and small business owners, common programmatic characteristics surfaced in the study, including “an emphasis on existing exporters; state programs that are provided free of charge, and states that depend on a network of governmental and private entities for cooperation in

⁶ Effectiveness ratings were tabulated only when the respondents indicated they had actually used the specific program.

marketing and delivering export assistance.⁷ Case studies revealed that the most helpful export assistance program was one-on-one counseling. Also seen as an important state function was the delivery of export promotion programs such as conferences and seminars. One-on-one counseling was viewed as expensive, but services such as conferences and seminars were seen as a cost-effective way of exposing large numbers of people to the idea of exporting.

Further, the study found trade patterns unique to small exporters. Specifically the study found that:

“Only a small number of firms (about 3,600) export more than 250 shipments per year. Fully 78 percent of the 104,000 U.S. exporters export less than \$250,000 per year, averaging only six shipments/year with an average value of \$43,000. These “infrequent” exporters are also the smaller firms. This stratification of export capability and activity suggests dramatically different assistance needs between exporters and potential exporters. State program goals tend not to take explicit account of this. Designing, marketing, and measuring assistance to the smallest exporter is a different task from developing assistance for firms that have never exported at all or for the firm that exports, but only to a narrow market.⁸”

Export sales were seen by most state program officials as the ultimate measure of success for their export promotion programs; however, efforts to introduce new businesses to exporting, or to reach the smallest exporters, were not deemed likely to be the shortest route to this goal. In fact, instructions to staff in one state acknowledged the trade off between total export value and increasing small business participation.

The study makes various recommendations, both for state legislatures and program managers. These recommendations, as extracted from the research summary, include:

- State legislatures should establish explicit goals for export promotion programs and should

distinguish between the goals of their export programs:

- ▶ Goals for programs aimed at increasing the number of small business exporters should be stated in terms of the number of businesses, thereby focusing on the long-term export capability of a broader number of businesses.
- ▶ Goals for programs aimed at increasing the dollar value of exports should focus on existing but infrequent exporters, thereby focusing on shorter-term results.
- Program managers should understand the limitations of export assistance and avoid overambitious promises of dramatic economic effects from a state export assistance effort.
- States should implement fees for services. Intensive counseling programs should be provided on a commission basis, and seminars and training should have modest participation fees.
- States should articulate the comparative advantage of various state-supported export assistance providers and increase coordination and joint publicity about resources.
- States should identify specific feedback mechanisms for export promotion activity to evaluate the effectiveness of specific programs. These mechanisms could include user surveys; frequent budget reviews; and targets for specific activities and staff, measured against results.⁹

In 1998, the SBA's Office of Advocacy held Vision 2000: The States and Small Business Conference. During the event, outstanding state and local programs and policies advancing small business were given “Models of Excellence” awards.

In the international trade field, the “Models of Excellence” award went to the New Hampshire International Trade Resource Center. Already recognized as an exemplary model of public service,

⁷ Research Summary, *State Export Promotion and Small Business*, National Small Business United, February 1992, page 2.

⁸ *State Export Promotion and Small Business*, National Small Business United, February 1992, page iii.

⁹ Research Summary, *State Export Promotion and Small Business*, National Small Business United, February 1992, page 3.

the center has been approached by a number of other states for guidance on creating this type of partnership and working environment. According to the SBA Office of Advocacy, the quality and array of services offered by the center have consistently helped New Hampshire companies access the various resources available to enable them to compete in seeking international business. The center is a true one-stop shop, created before the idea became popular, and is staffed by New Hampshire's Office of International Commerce, the U.S. Department of Commerce, the U.S. Export-Import Bank, the Small Business Development Center, and the private New Hampshire International Trade Association. Together, these organizations offer a complete package of assistance, services, and resources under one roof.

Conclusions

The research conducted under the purview of this report suggests that the state currently offers, and small businesses use, programs that help these businesses to identify markets with product demand, identify strategic alliances in those markets, and obtain the financing to effectuate trade opportunities. Furthermore, trade assistance programs available to small businesses in the state appear compatible with the needs identified by small businesses.

Research also supports the conclusion that a substantial number of additional small businesses could become involved in international activities. For small businesses completing the international trade survey, however, the largest obstacle to exporting was limited company resources -- an obstacle that may be difficult for the state to influence directly through its trade assistance programs.

RECOMMENDATIONS

This report does not attempt to recommend a wholesale change to trade assistance services delivered in Florida, but does provide the following observations relating to enhancement of these services for small businesses in Florida:

- Even without special legislative emphasis on trade assistance services to small businesses, EFI estimates that most of their trade assistance clients are small businesses (fewer than 100 employees), and that 60 percent of the documented export sales attributable to EFI programs and activities are attributable to small

businesses. Caution should be exercised, however, when using performance measures that relate to documented export sales attributable to programs and activities. Such measures may inadvertently provide a disincentive to providing trade assistance to typically smaller businesses, as smaller businesses typically export less frequently, and as a whole contribute significantly less to the value of exports than large businesses.

- If the Legislature decides to emphasize trade assistance services provided by EFI to small businesses, measures should be developed to reflect such emphasis, for example, measuring the increase in value of exports for small businesses, or measuring the number of small businesses assisted.
- The survey results presented in this report lend some support to the idea that, to the extent feasible, trade information and assistance should be provided in a one-stop center format, because businesses seem to want, and are currently utilizing, a menu of services. Currently, the Miami U.S. Export Assistance Center (USEAC) provides marketing and trade finance assistance through the co-location of the Commercial Service of the U.S. Department of Commerce, the Export-Import Bank, the Small Business Administration, and the Florida Export Finance Corporation. At one time, also co-located at the center were EFI and the World Trade Center. Planning is currently under way to relocate the USEAC to the facilities also occupied by the World Trade Center. It is anticipated that the FEFC will also relocate to these facilities. EFI, as part of its master plan for integrating public-sector and private-sector international trade resources required by ch. 99-251, L.O.F., may wish to revisit the co-location of its offices or representatives in the Miami USEAC.
- EFI may be able to further increase services available to small businesses through its Florida Trade Network. Adding the federal Small Business Administration to the existing network, which is currently comprised of the USEAC, the Florida World Trade Center Associations, the Florida District Export Council, and EFI, would incorporate SBA trade promotion programs, including export counseling and finance assistance.

- Responses from the survey carried out under the purview of this report showed an average effectiveness rating for EFI programs of 1.9 (with 1 being extremely effective). For continuous program improvement, the customer satisfaction survey required by EFI under s. 288.90151, F.S., may provide an excellent vehicle for EFI to measure the effectiveness, in addition to satisfaction, of its trade assistance programs. Similarly, the FTDC and FEFC may

find a customer satisfaction/effectiveness survey useful in improving services to small businesses. Furthermore, to the extent there is customer overlap among these organizations, the FTDC and FEFC may be able to tap into EFI's statutorily mandated customer satisfaction survey.

COMMITTEE(S) INVOLVED IN REPORT (*Contact first committee for more information.*)

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